Peijia Medical Limited
沛嘉醫療有限公司
(9996.HK)

Business Overview

Peijia Medical Limited ("The Company") focuses on the high-growth interventional procedural medical device market in China, and is a leading domestic player in each of the transcatheter valve therapeutic medical device market and the neurointerventional procedural medical device market in China. The company is one of the four domestic players in the China market with transcatheter aortic valve replacement ("TAVR") products at the clinical trial or more advanced stage, and ranked third in the China transcatheter valve medical device market in terms of the combined number of commercialized products and product candidates in the clinical trial stage. The company also ranked first among domestic players in the China market in terms of the combined number of commercialized products and product candidates in the clinical trial stage, and was the first domestic player to commercialize an embolization coil product in China, according to Frost & Sullivan.

The company's products and product candidates target large, fast-growing and under-penetrated markets with high entry barriers. According to Frost & Sullivan, heart diseases and neurovascular diseases are among the top causes of death, both in China and globally. Interventional therapies, especially catheter-based interventional therapies, can effectively treat such diseases, but the markets for transcatheter valve therapeutic and neurointerventional procedural medical devices in China are still at an early stage of development with considerable potential for growth. The current treatment options for aortic valve diseases include surgical aortic valve replacement ("SAVR"), the traditional open-heart surgery, and TAVR. According to Frost & Sullivan, the global TAVR product market is expected to increase from US$4.1 billion in 2018 to US$10.4 billion in 2025 at a CAGR of 14.3%. China's TAVR product market is also estimated to grow significantly from RMB196.6 million in 2018 to RMB6,332.6 million in 2025, at a CAGR of 64.2%. Only approximately 1,000 TAVR

Basic Information

Offer Price

HK$15.36

Offer Size

152,511,000 Shares, comprise of Public Offer 15,252,000 Shares and International Offer 137,259,000 Shares (subject to reallocation and Over-allotment Option)

Market Capitalization

$9371.2m

Application Period

5 May 2020 – 08 May 2020, Noon

Listing Date

15 May 2020

Board Lot

1000 shares

Major Shareholders

Dr.Zhang	23.68%
Hillhouse Capital Management	6.84%
LAV	10.23%
Matrix China Management	6.5%
Jin Zhu	5.91%

Join Sponsors

Morgan Stanley, Huatai International

Joint Global Coordinators

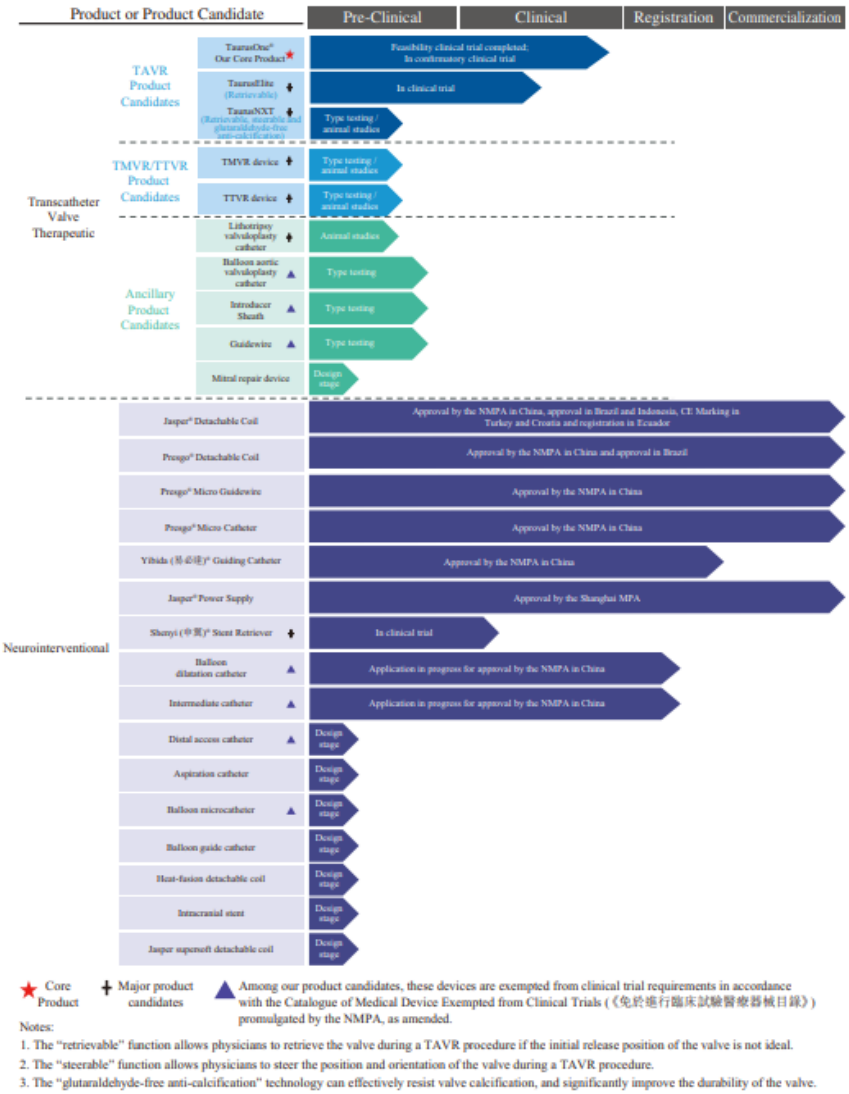
BOC International, UBS

Joint Lead Managers

CMB International, Guotai Junan International

procedures were conducted in China in 2018, representing a penetration rate of approximately 0.1%, indicating huge unmet demand and growth potential. It is estimated that the TAVR penetration rate in China will continue to grow, reaching 4.7% in 2025. The transcatheter mitral valve replacement ("TMVR") and transcatheter tricuspid valve replacement ("TTVR") markets in China are also still in their early stages of development, with significant growth potential. According to Frost & Sullivan, a few domestic companies are enjoying leading positions in the transcatheter valve therapeutic medical device market in China, but there is not yet any single dominating player in the market. The ability to develop advanced products with features tailored to the needs of Chinese patients and physicians is expected to be one of the key distinguishing factors for competing in this market, according to Frost & Sullivan.

The Company has a comprehensive portfolio of interventional procedural medical device products and product candidates focusing on these two fields. As of the Latest Practicable Date, it had developed six registered products, and had an additional 20 product candidates in various stages of development, which are summarized as follows:



Financial Highlights

Consolidated Statements of Comprehensive Loss			
	Year ended Decemeber 31		
	2018	2019	% of revenue
	RMB'000		
Revenue	0	18,699	100.0%
COGS	0	-6,686	35.8%
Gross Profit	0	12,013	64.2%
Selling and distribution expenses	0	-7,482	40.0%
Administrative expenses	-45,680	-173,367	927.1%
R&D	-27,851	-55,134	294.8%
Other income	3,027	4,049	21.7%
Other gains/losses-net	282	-7,002	37.4%
Operating loss	-70,222	-226,923	1213.6%
Finance cost/income	-4,559	3,121	16.7%
Fair value change in financial instruments issued to investors	-8,095	-308,175	1648.1%
Loss before income tax			0.0%
Income tax expenses			0.0%
Loss for the year	-82,876	-531,977	2844.9%

Key information about R&D		
	Year ended Decemeber 31	
	2018	2019
	RMB'000	
R&D costs		
R&D costs for Core Product		
Clinical trial expenses	2,402	5,201
Staff costs	5,122	2,706
Raw material costs	2,286	1,814
Others	1,875	1,211
R&D costs for our other product candidtates		
Clinical trial expenses	5,668	7,176
Staff costs	2,975	14,487
Raw material costs	2,888	8,730
Others	361	1,577
Workforce employment costs	13,253	32,986
Product marketing costs	0	2,316
Direct production costs	0	4,993
Non-income taxes, royalties and other governmental charges	0	0
Contingency allowance	0	0
	36,830	83,197

Reallocation of Shares Offered

Times of HK Offer Shares Subscription	15X - 50X	50X - 100X	Over 100X
% of total shares reallocated to HK Offer	30%	40%	50%

Use of Proceed

The company estimates that they will receive net proceeds of approximately HK$2,200.3 million after deducting the underwriting fees and expenses payable by them in the Global Offering, assuming no Over-allotment Option is exercised and assuming an Offer Price of HK$15.36 per Offer Share,

- approximately 65% or HK$1,430.2 million allocated to the development and commercialization of product as follows:
  - (i) Approximately 35.0%, or HK$770.1 million, will be used to fund the ongoing confirmatory clinical trial, preparation for registration filings, and planned commercial launches (including sales and marketing) of Core Product, TaurusOne®.
  - (ii) Approximately 10.0%, or HK$220.0 million, will be used to fund the ongoing clinical trial, preparation for registration filings, and planned commercial launches (including sales and marketing) of TaurusElite.
  - (iii) Approximately 15.0%, or HK$330.0 million, will be used to fund the ongoing pre-clinical studies and planned clinical trials for TaurusNXT.
  - (iv) Approximately 5.0%, or HK$110.0 million, will be used to fund the ongoing clinical trial, preparation for registration filings, and planned commercial launches (including sales and marketing) of Shenyi® Stent Retriever
- approximately 10.0%, or HK$220.0 million allocated to ongoing pre-clinical studies and planned clinical trials, preparation for registration filings and potential commercial launches (including sales and marketing) of other product candidates in pipeline:
  - (v) approximately 6.0%, or HK$132.0 million, to fund the ongoing and planned research and development of other transcatheter valve therapeutic product candidates, including TMVR device, TTVR devices, lithotripsy valvuloplasty catheter.
  - (vi) approximately 4.0%, or HK$88.0 million, to fund the ongoing and planned research and development of other neurointerventional procedural product candidates, including balloon dilatation catheter, distal access catheter, intermediate catheter, aspiration catheter, balloon microcatheter, balloon guide catheter, heat-fusion detachable coil, intracranial stent and Jasper supersoft detachable coil.
- approximately 8.0%, or HK$176.0 million, to be used to strengthen research and development capabilities to enrich product pipeline, which primarily includes recruiting and covering three years of salary for high-caliber talents for in-house research and development team, especially engineers with a broad range of design and development skills and experience.
  - (vii) three additional research and development directors for both the transcatheter valve therapeutic and neurointerventional business units in 2020;

(viii) approximately 80 additional engineers specialized in TAVR products by 2022; and

(ix) approximately 50 additional engineers specialized in neurointerventional procedural products by 2022.

- approximately 10.0%, or HK$220.0 million, to be used to expand product portfolio or intellectual property portfolio through potential strategic acquisitions, investments, partnerships and licensing opportunities; and
- approximately 7.0%, or HK$154.1 million, to be used for working capital and other general corporate purposes

Cornerstone Placing

	Investment Amount US$ in million	No. of Offer Shares	% after completing of Global Offering*
China Structural Reform Fund	20	10,092,000	1.65%
LAV Aero Limited	5	2,523,000	0.41%
Fidelity International	50	25,231,000	4.14%
Prime Capital Funds	13	6,560,000	1.08%
Hudson Bay Master Fund LTD	**10**	5,046,000	0.83%
Mathews Funds	10	5,046,000	0.83%
OrbiMed Funds	10	5,046,000	0.83%
Cormorant Asset Management, LP	8	4,037,000	0.66%
Octagon Investments Master Fund LP	8	4,037,000	0.66%
Rock Springs Capital Management LP	8	4,037,000	0.66%
New China Capital Maangement Limited	6	3,027,000	0.50%
AIHC Master Fund	1	504,000	0.08%
IvyRock Asset Manamgement (HK) Limited	1	504,000	0.08%
Sage Partners Master Fund	1	504,000	0.08%
	151	**76,194,000**	**12.49%**
*over-allotment option is not exerecised			

Risks Factors

Risks Relating to Coronavirus

- The Company expects that the outbreak of COVID-19 will have the following impact on business, financial condition and results of operations:
- The sales of commercialized neurointerventional procedural products are expected to be adversely impacted. With the outbreak of COVID-19, many hospitals in China allocated significant resources to contain COVID-19, and patients suffering from other diseases generally avoided going to hospitals in order to prevent being infected. Therefore, many neurointerventional procedures which are not emergency in nature were postponed or cancelled, and some distributors reduced their purchases in response to the lowered demand.
- Due to the outbreak of COVID-19, the review process of the competent authorities for the production license was delayed, and The Company expects to receive the production license and commence production in June 2020. The delay of operation

of the new Suzhou facility will result in a decrease of production capacity for the year with respect to Jasper and Presgo Detachable Coils as compared to the amount originally planned for 2020.

- The Company did not plan to submit any NMPA registration in the first half of 2020, so it currently expects that the delayed resumption of normal operations by the NMPA would not have a material adverse impact on product registration efforts. However, if the NMPA could not finish the evaluation of the backlogged applications in time, product registration may be delayed.

Risks Relating to Financial Position

- The Company has incurred significant operating losses since inception, and may continue to incur operating losses for the foreseeable future. The Company is a development-stage biotechnology company. Investment in medical device development is highly speculative because it entails substantial upfront capital expenditures and significant risks that a product candidate may fail to gain regulatory approval or become commercially viable.
- The Company is unable to predict when, or whether, it will be able to achieve or maintain profitability. To become and remain profitable, it must be successful in a range of challenging activities, including completing the clinical trials for product candidates, obtaining regulatory approval from the NMPA and other competent regulatory bodies, and commercializing its approved products to achieve market acceptance.

Risks Relating to Products Development

- The ability to complete the development of product candidates, obtain the relevant requisite regulatory approvals of the product candidates and successfully commercialize its approved products in a timely manner is critical to the success of the business. If the Company can't achieve one or more of these factors in a timely manner, it could experience significant delays or be unable to obtain approval for product candidates, and would materially harm its business.
- Clinical product development involves a lengthy and expensive process with an uncertain outcome.
- If clinical trials of its product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results in a timely manner or at all, The Company may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of product candidates.
- The initial or interim results of clinical trials may not be predictive of the final clinical trial results and may be subject to adjustments.
- If The Company encounters difficulties or delays in enrolling patients in clinical trials, clinical development activities could be delayed or otherwise adversely affected.
- The Company may not be able to develop new products that are competitive in the market, or in a timely manner or at all.
- The Company may not be successful in developing, enhancing or adapting to new technologies and methodologies.

Risk Disclaimer

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